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MAIL PROCESSING NETWORK RATIONALIZATION
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REPLY BRIEF OF INTERVENOR NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO

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SUBJECT INDEX

Intervenor National Association of Letter Carriers, AFL-CIO ("NALC") respectfully submits this reply brief in response to the initial brief filed by the United States Postal Service ("USPS") and in further opposition to the service standard changes USPS is proposing in this case.

I. DEGRADING SERVICE STANDARDS WOULD ALMOST CERTAINLY CAUSE A GREATER DROP IN MAIL VOLUME THAN USPS ANTICIPATES

In its initial brief, USPS claims that the degradation of mail service standards that it is proposing in this case would itself have "little or no impact on volume." USPS Brief at 90. This is wishful thinking. As NALC explained in its initial brief, speed of delivery is an important attribute of the quality of mail service. *See* NALC Brief at 3-5. Basic economics teaches that reducing the quality of the mail by making it slower will cause demand for it to drop, causing loss of volume. USPS asserts that customers who care about transit time will "simply modify their behaviors," USPS Brief at 83, suggesting that they will adapt their use of First-Class Mail to slower delivery times. But customers will more likely "modify their behaviors" by accelerating their shift to electronic communications, commercial delivery services and other alternatives to First-Class Mail. The consumer paying his credit card bill, for example, may turn to online payment to avoid incurring late fees. There is little question that there will be a substantial loss of First-Class Mail volume.

How much will be lost is little more than guesswork. USPS provides no confidence interval for its estimate of a total mail volume loss of 1.7%, *see* NALC Brief at 5, thus providing no assurance that the actual loss will not be far greater. USPS attempts to justify the absence of a confidence interval for its total volume loss estimate by asserting that such a confidence interval could not be provided consistent with "established statistical science." USPS Brief at 88-89. But this estimate of a 1.7% volume loss constitutes the cornerstone of USPS's case, forming the basis for its conclusion that the savings generated by the network rationalization would exceed the losses produced by lower service standards. *See* USPS Brief at 31; USPS-T-12 (Whiteman), at 22 (Chart 1), (USPS using 1.7% volume loss estimate to calculate a contribution loss of $501 million). Indeed, USPS explains that the ORC quantitative market research that led to the 1.7% volume loss estimate "became the foundation for the Postal Service decision to go forward with the MPNR." *See* USPS Brief at 76 n.63. USPS's failure to provide a margin of error for this key 1.7% estimate thus puts in question USPS's entire case.

USPS provided confidence intervals for its volume loss estimates for various customer segments but, as NALC explained in its initial brief, these confidence intervals show a large range of possible outcomes, confirming the deep uncertainty of USPS's estimates. *See* NALC Brief at 6. USPS's admission that these confidence intervals were flawed, *see* USPS-SRT-4 (Elmore-Yalch) at 30 (acknowledging that use of normal distribution "is not correct"), only adds to the uncertainty. *See id.*

NALC explained in its initial brief that USPS's estimate of mail volume loss was not only highly uncertain, but almost certainly understated. *See* NALC Brief at 6-15. NALC demonstrated that USPS's application of the "probability of change" and "solely attributable" factors improperly skewed downward respondents' best estimates of how much they would decrease their mail use, thus reducing the estimate of total mail volume loss. *See id.* at 6-13. Nothing in USPS's initial brief shows how much greater USPS's volume loss estimate would have been had these two reduction factors not been applied.

USPS acknowledges, as it must, that in the 5-day case, N2010-1, the Commission unanimously rejected ORC's use of the "probability of change" factor. USPS makes no effort to distinguish that earlier case, which also involved a proposed reduction in mail quality, from the instant case. It simply suggests that the Commission's unanimous rejection of the "probability of change" factor in the 5-day case reflected a lack of research by the Commission into the relevant literature. *See* USPS Brief at 87. But in the 5-day case, the Commission "conducted an extensive search" and found no literature supporting application of the "probability of change" factor to a proposed reduction in service quality. *See Advisory Op. on Elimination of Saturday Delivery*, Docket No. N2010-1 (March 24, 2011), at 111-12. The articles that USPS now points to all pre-date the Commission's opinion in the 5-day case, *see* USPS Brief at 87 nn. 74-79, indicating that there has been no change in the relevant scholarship since the Commission's review of it in the 5-day case. In any event, as Dr. Crew's testimony makes clear, one need not review market research literature to see the fundamental flaw in multiplying a respondent's best estimate by a reduction factor. *See* NALC-T-1 (Crew), at 9.

In a new attempt to justify the "probability of change" factor, USPS argues that it is appropriate to weight a respondent's stated intention to perform a "specific behavior" like voting, contributing to charity or buying a particular product by the respondent's stated probability that he or she "will actually engage in" that behavior. USPS Brief at 86. Even if true, such weighting would be inappropriate here since the respondents in the ORC research were not asked whether they would engage in the specific behavior of using the mail. That they would use the mail to some extent was assumed; what they were asked was the *quantity* of their estimated mail use in light of the proposed service changes. *See* USPS-T-11 (Elmore-Yalch), at 145 (Question U7A). Since they gave their best estimate of this quantity, and since there is no more reason here than in the 5-day case to assume that they overestimated, *see Advisory Op.*, Docket No. 2010-1, at 112-13, applying the "probability of change" reduction factor was clearly wrong.

Nothing in USPS's initial brief even attempts to justify ORC's use of the "solely attributable" factor. Indeed, USPS explains that the concept statement used in ORC's quantitative research was "tailored narrowly" to address the service standard changes proposed here. USPS Brief at 81 (citing USPS-T-11 (Elmore-Yalch) at 100). Since the concept statement focused the respondents' attention on just the proposed service standard changes, and since the respondents were only asked about how their mail use would change as a result of the proposed service standard changes, *see* USPS-T-11 (Elmore-Yalch) at 145 (Question U7A), no basis existed to reduce their estimates by the unprecedented "solely attributable" factor.

Next, USPS's initial brief nowhere denies that the estimate of mail volume loss of 1.7% would have been greater but for USPS's assumption that certain postal customers would *increase* their mail use as a result of the degradation in service standards. *See* NALC Brief at 13. USPS fails to justify this bizarre assumption. USPS does not try to challenge the established economic principle that decreasing the quality of a service reduces demand for it. Nor does USPS provide evidence that the service standard changes proposed here would increase reliability of service, let alone that it would increase it to such an extent that it would cause postal customers to use the mail more. Rather, USPS simply asserts that some customers may *perceive* "MPNR as heralding improved consistency of delivery." USPS Brief at 93. But USPS provides no explanation for why customers would perceive a degradation in service standards as making mail more reliable. Accordingly, USPS further underestimates its mail loss by assuming that degrading service standards will cause some customers to increase their mail use.

Given the flaws in ORC's market research, USPS could have and should have undertaken alternative or additional efforts to assess how the proposed service standard changes may impact demand, such as an econometric study or a survey using a control group and a treatment group. *See* NALC Brief at 15-16. USPS's initial brief provides no explanation for why it failed to undertake any such effort.

II. USPS'S PROPOSED DEGRADATION OF SERVICE STANDARDS, WHEN COMBINED WITH OTHER USPS COST-CUTTING INITIATIVES, WOULD THREATEN THE VIABILITY OF THE BUSINESS

In its initial brief, USPS asserts that its proposed degradation of service standards would produce a "one-time (but permanent)" $501 million contribution loss. USPS Brief at 31. In other words, USPS believes that its loss will not grow with time, but will remain constant. This too is wishful thinking. As Dr. Crew explained, in the short-run, postal customers may not have time to adjust their operations and mailing behavior in response to the mail having become slower. *See* Tr. 3661. But in the longer term, they would be able to do so, *see id.*, and would also overcome the initial inertia that USPS witness Whiteman identified as a cause for delayed response, *see*

USPS-T-12, at 8. The shift away from First-Class Mail caused by the degradation of service standards would thus accelerate in the coming years, *see* NALC-T-1 (Crew) at 6, reducing or eliminating any net savings that USPS expects to capture.

Moreover, as NALC explained in its initial brief, mail volume loss would snowball when and if the proposed service standard changes were combined with other measures that USPS is seeking – like the elimination of Saturday delivery, the closure of post offices or the reduction of post office hours – that further reduce the quality of USPS's services or make them less accessible. *See* NALC Brief at 19-20. Indeed, as USPS acknowledges, the preliminary results from ORC's "All Sources" quantitative market research showed a staggering estimated loss of total single piece mail of 10.3%. *See* USPS Brief at 82 (citing Tr. 906). Such a precipitous decline in volume could well suck USPS into a "death spiral" of rapidly diminishing mail volume followed by more cost-cutting service reductions followed in turn by yet further shrinkage of mail volume.

CONCLUSION

USPS's case is premised on the assumption that its network rationalization will produce savings that will exceed the revenue loss caused by the degradation of service standards. This assumption rests on a very shaky stool, namely, the flawed market research conducted by ORC. In fact, for the reasons explained above, USPS's estimate of mail volume loss, and thus its estimate of lost revenue, is almost certainly understated. More importantly, USPS incorrectly assumes that customer reaction to the reduction in the quality of mail will be a static, one-time event. In fact, as USPS degrades the quality of its flagship service, customers will adjust their behavior over time to use it less and less, eating away at any net savings produced by the slowing of First-Class Mail. When combined with other service quality reductions that USPS has been contemplating, the service standard changes could well threaten the viability of USPS's business. For that reason, and the others set forth in NALC's initial and reply briefs, the Commission should issue an advisory opinion opposing USPS's proposed service changes.

Respectfully submitted,

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